LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7163 | **DATE PREPARED:** Feb 15, 2001
BILL NUMBER: HB 2106 | **BILL AMENDED:**

SUBJECT: Earned Income Tax Credits.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill replaces the current $12,000 income limit in the Earned Income Tax Credit provisions with a limit based on the federal poverty guidelines. (The dollar amounts in these guidelines vary according to family size). It provides that a taxpayer without a qualifying child may take the credit if the taxpayer meets the income limits. The bill also extends the credit for two more years, until December 31, 2003.

Effective Date: July 1, 2001; January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate these changes to the Earned Income Tax Credit. These expenses could be absorbed given the DOR's existing budget and resources.

Secondary impact: The refundable portion of the Earned Income Tax Credit qualifies as Maintenance of Effort (MOE) expenditures and would contribute toward the state's annual MOE requirement under the Temporary Assistance to Needy Families (TANF) program. *The refundable portion of the Earned Income Credit under this proposal is estimated to be as much as $70.7 M in FY 2003 and $74 M in FY 2004.*

Explanation of State Revenues: *The revenue loss associated with expanding the Earned Income Tax Credit and extending it for two more years is estimated to be $89.4 M in FY 2003 and $93.7 M in FY 2004 (of which $70.7 M and $74 M would be refundable each year, respectively).*

Under current law, the Earned Income Tax Credit is available to individuals who have the following: (1) at least one qualifying child; (2) income from all sources of not more than $12,000; and (3) at least 80% of total income from earned income. The amount of this refundable credit is equal to $12,000 minus the taxpayer’s total Indiana income.

Under this proposal, two changes would expand the pool of Indiana residents eligible for this tax credit: (1) the qualifying child requirement would be eliminated; and (2) the $12,000 income threshold would be replaced by the amount applied to the taxpayer's family unit size in the previous year's poverty guidelines issued by the U.S. Department of Health and Human Services (see Table A below).

TABLE A: 2000 Poverty Guidelines for the 48 Contiguous States and the District of Columbia

Size of Family Unit*	Poverty Guideline
1	$8,350
2	$11,250
3	$14,150
4	$17,050
5	$19,950
6	$22,850
* For each additional member, add $2,900	

Data and Estimation: The DOR reported that for the 1999 tax year, approximately $16 M in Earned Income Credits were claimed, with $12.7 M being refundable. However, as the credit is set to expire under current law on December 31, 2001, the impact of the proposal is not only the difference between the current $12,000 credit and the proposed scenario, but rather the full impact of offering the Earned Income Tax Credit with the variable income limits based on household size.

1997 and 1998 individual income tax data from the DOR were used to estimate the fiscal impact of this proposal. After adjustments were made to account for growth, the results indicate that the Earned Income Tax Credit as outlined in this bill would reduce state income tax revenue by $89.4 M in FY 2003 and $93.7 M in FY 2004. Based on previous analyses of this credit, it was estimated that approximately 79% (or $70.7 M in FY 2003 and $74 M in FY 2004) of the annual totals may be refundable.

The annual impact would begin in FY 2003 as this proposal is effective January 1, 2002. The new credit would then expire December 31, 2003, making FY 2004 the final year of impact. Individual Adjusted Gross Income Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Rob Whaley, Tax Policy Analyst, DOR, (317) 232-2104; DOR's 1998 individual income tax data; US Department of Health and Human Services, Annual Update of HHS Poverty Guidelines.